

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SS-15 EB-07 NSC-05 CIAE-00 AID-05 SSO-00

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FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 5238

INFO USCINCSO

C O N F I D E N T I A L SECTION 1 OF 2 LA PAZ 0049/1

E.O. 11652: GDS

TAGS: EGEN, ECON, PINT, PGOV, BL

SUBJ: GOB ECONOMIC MEASURES

REF: (A) STATE 000398; (B) TOAID A-91;

1. EMBASSY AT PRESENT UNAWARE OF EXACT DETAILS OF WAGE PRICE PACKAGE WHICH GOB IS EXPECTED TO ANNOUNCE THIS MONTH. HOWEVER, THERE HAS LONG BEEN GENERAL EXPECTATION THAT GOB WOULD MAKE DECISION AFFECTING WAGES AND PRICES IN CONNECTION WITH ANNUAL JANUARY BUDGET ANNOUNCEMENTS. AS EMBASSY AND MISSION REPORTING HAS INDICATED (SEE REFTEL B AND SUBSEQUENT), GOB HAS ANTICIPATED 1975 BUDGET WOULD END UP WITH SERIOUS DEFICIT AND HARD MEASURES WOULD BE REQUIRED. INFORMATION REGARDING BUDGET CITED REFTEL A FALLS WITHIN RANGE OF FIGURES THAT EMBASSY RECEIVING AND IN LINE WITH VIEW IMF REP EXPRESSED TO US BEFORE HIS VACATION DEPARTURE. FOLLOWING PARAGRAPHS ADD SOME INTERPRETATION. MORE EXTENSIVE REPORT ON DETAILS OF BUDGET AND ECONOMIC MEASURES WILL BE FILED WITHIN NEXT WEEK.

2. INFORMATION CITED REFTEL A GIVES GOB HIGHEST ESTIMATED EXPENDITURE PROJECTIONS WHILE REVENUE PROJECTIONS VERY CLOSE TO THAT UNDER FAVORABLE ASSUMPTIONS. EMBASSY BEST ESTIMATE IS GOB BUDGET DEFICIT FOR 1975 WILL BE ABOUT \$B 900 MILLION, WITH REVENUES, INCLUDING REPORTED MEASURES, CLOSE TO \$B 5.3 BILLION AND EXPENDITURES NEAR \$B 6.2 BILLION. ON CASH BASIS, CENTRAL BANK WOULD BE THUS FORCED TO FINANCE

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ABOUT \$B 650 MILLION, OF WHICH THE C/B COULD DRAW-DOWN ABOUT

\$B 420 MILLION IN DEPOSIT GENERATED FROM BANK OF AMERICA SYNDICATED LOAN OF MAY, 1974. PROBLEM IS INABILITY GOB TO CUT EXPENDITURE REQUESTS SIGNIFICANTLY AND UNCERTAINTY OF REVENUE COLLECTIONS DUE TO UNSTABLE WORLD PRICES AND POSSIBLE REDUCED DEMAND FOR BOLIVIA'S MAJOR EXPORTS.

3. IT APPEARS MINFIN AND MIN COORDINATION PRESENTED MOST PESSIMISTIC PROJECTIONS FOR 1975 TO DRAMATIZE SERIOUS POTENTIAL PROBLEMS FOR BUDGET AND DANGERS FOR INFLATION AND BALANCE OF PAYMENTS WHICH WILL SEE LARGE SURPLUS REDUCED. WE ESTIMATE INFLATION RATE MAY APPROACH 30 PER CENT FOR YEAR AND VERY SLIGHT (IF ANY) BALANCE OF PAYMENTS SURPLUS ANTICIPATED IN 1975.

4. FINANCING OF DEFICIT WILL PROBABLY TAKE FOLLOWING FORMS:
(1) CARRY-OVER PL-480 COUNTERPART OF ABOUT \$B 100 MILLION;
(2) NET INCREASE IN YEAR-END FLOAT OF ABOUT \$B 200 MILLION;
(3) CENTRAL BANK DRAWDOWN ON BANK OF AMERICA SYNDICATED LOAN LOCAL CURRENCY DEPOSIT OF \$B 420 MILLION; AND (4) EXPANSION IN C/B GROSS CREDIT TO TREASURY. ALL THESE FINANCING MECHANISMS WILL CAUSE SUBSTANTIAL INCREASE IN LIQUIDITY WITH POTENTIAL IMPACT ON INFLATION AND BALANCE OF PAYMENTS (MENTIONED ABOVE).

5. MOST SENSITIVE REVENUE MEASURES GOB CONSIDERING AIMED AT SPECIFIC PROBLEMS OF PUBLIC ENTERPRISES WHOSE DIFFICULTIES PREDICTALBY WOULD HAVE RESULTED IN GOB HAVING EITHER TO FOREGO EXPECTED COLLECTIONS OR MAKE UNWANTED CALLS ON TREASURY RESOURCES. YPFB PAYS 19 PERCENT TAX ON ALL PRODUCTION VALUED AT EXPORT PRICES. THIS MEANS THAT, AT PRESENT, INTERNAL PRICE STRUCTURE FOR PETROLEUM PRODUCTS, YPFB HAS SUBSIDIZED DOMESTIC CONSUMPTION TO DETRIMENT OF ITS CASH FLOW. AS RESULT OF INCREASING COSTS, YPFB WARNED GOB IN SEPTEMBER, 1974, THAT BY 1975 ITS CASH FLOW WOULD BE NEGATIVE, FORCING NON-PAYMENT OF TAXES TO TREASURY. PROSPECTS OF THIS SINGLE LARGEST SOURCE OF TREASURY REVENUE DEFAULTING IS LIKELY TO FORCE GOB TO INCREASE DOMESTIC PRICES. ELECTRICITY RATES GENERALLY RECOGNIZED AS NEEDING UPWARD ADJUSTMENT. IN CASE OF RAILROAD RATES WORLD BANK LOAN REQUIRES TARIFF READJUSTMENTS TO AVOID DECAPITALIZATION.

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6. IN ADDITION TO MEASURES MENTIONED, GOB LIKELY MAKE SUGAR, COFFEE AND POSSIBLY MEAT EXPORTS SUBJECT TO EXPORT TAX STRUCTURE SIMILAR TO COTTON, I.E., EXEMPTED BASIC PRICE WHICH REFLECTS PRIMARILY COST OF PRODUCTION AND PROGRESSIVE TAX RATE STRUCTURE COUPLED TO PREVAILING EXPORT PRICE. HOWEVER, EMBASSY ESTIMATES THAT THESE TAXES WILL HAVE MARGINAL IMPACT ON TREASURY REVENUES.

7. KEY MEASURE, IN TERMS OF ITS IMPACT ON DOMESTIC POLITICAL SCENE, WOULD BE PRICE INCREASE FOR PETROLEUM PRODUCTS. TRANSPORT SECTOR, WHICH CARRIES ALL URBAN ORIENTED AGRICULTURAL COMMODITIES, LIKELY RAISE PRICE FOR ITS SERVICES, WHICH WOULD BE REFLECTED IN INCREASED RETAIL PRICES. IN THE PAST, ANY INCREASE IN GASOLINE PRICES WAS PASSED ON 100 PERCENT OR MORE TO THE FINAL CONSUMER. (THIS MARKS THE MAJOR PRE-OCCUPATION OF THE GOB.) SIMULTANEOUSLY WITH GASOLINE PRICE INCREASE, IF THIS MEASURE IS APPROVED WITHIN BANZER GOVERNMENT, GOB IS ALMOST SURE TO ANNOUNCE SALARY INCREASE WHICH WE ARE TOLD WILL BE DECREED AT BETWEEN 15 AND 20 PERCENT FOR THE PUBLIC SECTOR. IT REMAINS UNCLEAR WHETHER THE PRIVATE SECTOR WILL BE HELD TO THIS INCREASE.

8. COMMENT: ALTHOUGH EXACT DETAILS OF PROPOSED PRICE AND WAGE INCREASES REMAIN IN DOUBT, EMBASSY IS AWARE OF GENERAL PHILOSOPHICAL PREDISPOSITION WITHIN GOB TO ADOPT HARD LINE TOWARD ALL WHO MAY OPPOSE PROJECTED "RATIONALIZATION" OF WAGES AND PRICES THROUGHOUT BOLIVIAN ECONOMY. IN EFFECT, BANZER GOVERNMENT VIEWS DOMESTIC REACTION TO ITS PROPOSED ECONOMIC PACKAGE AS FIRST MAJOR TEST OF THE "NEW ORDER", AND WILL BE PREPARED TO MAKE CONSPICUOUS EXAMPLE OF THOSE WHO OPPOSE THE MEASURES. MIN INTERIOR PEREDA GAVE SOME

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-07 SS-15 NSC-05 CIAE-00 AID-05 SSO-00

NSCE-00 RSC-01 /044 W

----- 056512

O R 032155Z JAN 75

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 5239

INFO USCINCSO

C O N F I D E N T I A L SECTION 2 OF 2 LA PAZ 0049/2

HINT OF THIS ATTITUDE JANUARY 2 IN PUBLIC STATEMENT DENOUNCING SUBVERSIVE MOVEMENT BY EXTREME LEFT, WHICH HE LINKED WITH ELEMENTS OF POLITICAL PARTIES NOW IN RECESS. EXACT NATURE OF POPULAR REACTION WILL DEPEND,

OF COURSE, ON NATURE AND TIMING OF GOB'S WAGE AND PRICE INCREASES. IT IS, OF COURSE, CLEAR TO THE GOB, AS IT IS TO US, THAT AN ANNOUNCEMENT BY THE GOVERNMENT OF A SIMULTANEOUS INCREASE OF PRICES IN ALL THE AREAS MENTIONED ABOVE, COUPLED WITH AN ANNOUNCEMENT OF A WAGE INCREASE WHICH IS CLEARLY INADEQUATE TO MEET THE INCREASE IN COST OF LIVING RESULTING FROM THE ECONOMIC MEASURES, WOULD CAUSE A SUBSTANTIAL AND GENERALIZED NEGATIVE REACTION ON THE PART OF THE PUBLIC, ESPECIALLY THE LABOR SECTOR, WHICH COULD LEAD TO A GENERAL STRIKE. THIS POTENTIAL REACTION HAS CAUSED AN INTERNAL DEBATE WITHIN THE GOB ON THE NATURE AND TIMING OF THE INCREASES. WHAT CANNOT BE DOUBTED AT PRESENT IS WILL OF HIGHEST GOB OFFICIALS TO REACT ENERGETICALLY TO ANY ATTEMPTED PROTESTS BY OPPOSITION ELEMENTS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC PROGRAMS, CENTRAL GOVERNMENT
Control Number: n/a
Copy: SINGLE
Draft Date: 03 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LAPAZ00049
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750004-0193
From: LA PAZ
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750180/aaaacsgc.tel
Line Count: 184
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 STATE 000398, 75 TOAID A-91
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 03 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 SEP 2003 by ShawDG>; APPROVED <16 SEP 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOB ECONOMIC MEASURES
TAGS: EGEN, ECON, PINT, PGOV, BL
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006